SSA Market Review

Ghana: S&P Global Downgrades Sovereign Credit Rating to CCC+ With a Negative Outlook Due to Increased Fiscal and External Sector Vulnerabilities

Rating Agency S&P global downgraded Ghana's foreign currency and local currency sovereign default rating to CCC+ from B- with a negative outlook. The rating action completes the triangle of credit downgrades from the major rating agencies in 2022, with S&P global joining Moody's in pushing Ghana's credit seven notches down the sub-investment grade and into the substantial risk territory. Only Fitch Ratings puts Ghana's credit a notch better at B- (outlook: negative) in the highly speculative category.

The agency cited the intensified financing conditions and elevated Balance of Payments (BoP) pressures as the main downgrade drivers. Notably, S&P estimates Ghana's usable gross FX reserves at US$4bn at FY22, which may cover only offshore holding of LCY bonds. Additionally, the agency projected that the strained fiscal position, the elevated domestic cost of funding, and the slowing growth momentum would require a primary surplus of over 2% of GDP to ensure debt sustainability, which underpins the negative outlook.

While an IMF backstop could stabilize the external outlook, we note the increasing risks to debt sustainability from the lingering depreciation pressures and revenue shortfalls. The external debt accounted for 51.7% of the total debt stock as of Jun-22. After adjusting for new external borrowing, the Cedi's marked depreciation against the major trading currencies over 1H22 added GH32.14bn to the debt stock despite the slight decline in the USD value of the external debt. The increased offshore investor risk aversion and the resultant selloffs over 1H22 depleted the liquid reserves. Also, Ghana's external position is even more vulnerable given the heightened risk sentiments and the lingering Cedi depreciation pressures. Consequently, bond prices could remain depressed until a breakthrough in negotiations with the IMF regarding the BoP support program.

Kenya: MPC May Require Quicker Rate Hikes for the Remainder of 2022 to Tame the Elevated Inflation Pressures.

The Central Bank of Kenya appears to have deferred another 50bps hike in the Monetary Policy Rate (MPR) in Jul-22 ahead of the Presidential election on August 9, 2022. Given the persistent increase in headline inflation since Mar-22 and the heightened inflation expectations among key economic actors, the rate-neutral decision was a surprise.

Kenya's headline inflation has increased consistently since Mar-22, reaching 8.3% in Jul-22, which is 80bps outside the 7.5% upper target band. While the fuel subsidy program will moderate the passthrough of higher fuel prices to general prices, the election-induced expenditure pressures could keep the economy hotter. Additionally, the supply shocks due to geopolitics and the drought conditions in parts of the country remain upside risks to inflation, which may require a tighter monetary policy stance to re-anchor inflation expectations.

Kenya's fiscal account is already stressed, and the 2022/23 budget is targeting a revenue-led fiscal consolidation, which is expected to trim the fiscal deficit to 6.2% of GDP (from the estimated 8.1% in FY-2021/22). As such, the extended fuel subsidy program further strains public finances as we believe the cash balances in the fuel price stabilization fund are depleted following the transfer of 76% of the funds accrued from the Kesh 5.4/liter collection on gasoline and diesel at the pumps to the Ministry of Infrastructure in FY-2021/22. These upside risks to inflation may require a faster hike in the policy rate to regain a handle on inflation and keep interest rates competitive.

SSA: Snapshot of Benchmark 91-Day Yields

	Current Week (%)	Previous Week (%)	w/w Change (%)
Nigeria	2.81%	2.80%	0.01%
South Africa	5.78%	5.81%	-0.03%
Uganda	8.25%	8.25%	0.00%
Egypt	16.03%	15.86%	0.17%
Kenya	8.47%	8.40%	0.07%
Tanzania	2.77%	2.77%	0.00%
Zambia	9.16%	9.16%	0.00%

Source: GCB Capital Research, Central Bank Websites

The Ghana Market Summary

	Current	Previous	Change
Monetary indicators			
Interbank Interest Rate (%)	21.89%	21.87%	0.02%
Inflation (12-month average)	14.43%	14.43%	0.00%
Monetary Policy Rate (%)	19.00%	19.00%	0.00%
The Ghana Reference rate (%)	20.80%	20.80%	0.00%
GoG T-Bill Auction Summary			
91- Day Bill issued (GH₵)	954.66	824.17	15.83%
182 - Day Bill issued (GH₵)	232.4	259.38	-10.40%
364 -Day Bill issued (GH₵)	114.65	0	n/a
91 - Day Bill Yield (%)	27.04%	26.71%	0.33%
182 – Day Bill Yield (%)	28.51%	28.26%	0.25%
364 – Day Bill Yield (%)	28.40%	27.85%	0.55%
Bid/Cover ratio	1.03x	1.0x	0.03
Target coverage	1.13x	1.92x	-0.79
Maturity Coverage	1.20x	2.05x	-0.84
Target for Upcoming Auction	1,410	1153	22.29%
Upcoming Maturing T-bills	1,320.02	1,080.71	22.14%

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The Ghana Fixed Income market in Focus

- The Treasury accepted 97% of the GH¢1.34bn bids investors tendered at the auction of 91-day to 364-day bills last week.
- The issuance size translates into a target coverage of 1.13x, and a maturity coverage of 1.20x for the week, which extends the strong appetite for T-bills in recent weeks.
- Despite the strong demand, T-bill yields climbed higher across the spectrum, reflecting the overall market risks.
- We expect investors to sustain a balanced portfolio strategy on the back of elevated near-term risks to the economic outlook.

Auction performance: Again, the Treasury exceeded its gross auction target and refinancing obligation for the week from the GH¢1.30bn raised from the auction of 91-day to 364-day bills last week. The auction attracted total demand worth GH¢1.34bn, translating into a bid cover ratio of 1.03x with a target coverage of 1.13x and maturity coverage of 1.20x.

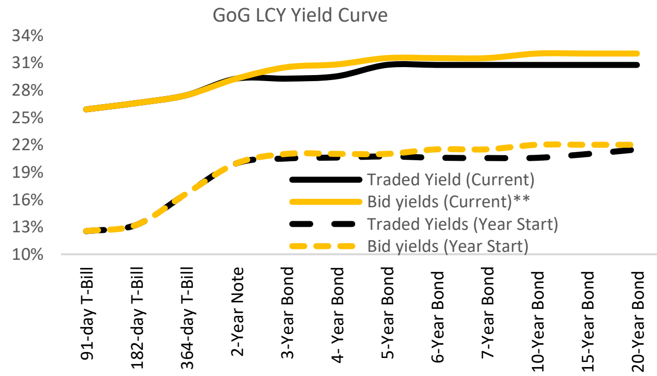
Despite competition from Cocoa Bill issuance, the level of demand was strong, reflecting investors' extremely short-term view of the market due to the unconvincing fiscal outlook. Regardless, T-Bill yields advanced, with the 91-day (27.04% | +33bps w/w), the 182-day (28.51% | +25bps w/w), and the 364-day (28.40% | +55bps) yields closer to the clearing coupon on the last 3-Year LCY bond. Given the lost market access and the uncertain fiscal outlook, domestic investors could stay short on the LCY curve until negotiations with the IMF progress.

The Money Market in the Week Ahead: The Treasury will attempt to raise GH¢1.41bn across the 91-day to 364-day bills at the next auction slated for Friday, August 12, 2022. The proceed will be used to roll over maturing face value worth GH¢1.32bn falling due on August 15, 2022. Similarly, COCOBOD will also attempt to roll over the maturing 182-day bills with outstanding face value worth GH¢3.02bn tomorrow, Tuesday, August 9, 2022. We believe COCOBOD declined to publish pricing guidance due to the significant maturity due this week, which could drive the higher average yield. Last week's Cocoa bill issuance recorded the highest clearing yield of 32%, and the asset class could attract the chunk of GHS liquidity on the market this week. This increased competition for funds could force the Treasury's T-bill yields significantly higher, and the benchmark 91-day bill could clear around the mid-27 % level.

Review of the Secondary Fixed Income Market

Trading Dynamics: The volumes traded on the secondary bonds market continue to decline amidst firm interest in the attractively priced T-bill offers and the elevated risk sentiments. The aggregate turnover further eased to GH¢1.26bn (-35.3% w/w) last week. The mid-duration tenors (tenors with 5-Yr to 7-Yr residual maturity) dominated market activity last week and accounted for 56% of the aggregate turnover. The front and back ends of the curve also moved decent volumes and accounted for 44% of the volume traded last week.

Pick-up strategy: The secondary market trading dynamics reflect a cautious pick-up strategy that seeks to optimize near-term portfolio returns while safeguarding stable portfolio performance over the medium term. We believe the front of the curve retains value and will continue to drive demand, especially given the prevailing uncertainties. However, we expect portfolio managers to maintain a balanced strategy to stabilize portfolio returns over the medium term.



Source: GCB Capital Research | Bank of Ghana | Central Securities Depository

3Q-22 Issuance Calendar		
	3Q-22	q/q change
Gross Issuance	GH¢23.07 bn	-6.6%
o/w Rollover of maturing debts	GH¢21.12 bn	+5.1%
o/w new financing	GH¢1.95 bn	-57.5%

Target instruments

1. **T-bills** - Weekly
2. **2-Year** -7-Year bonds – subject to market conditions

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Ghana's Outstanding Eurobonds					
Maturity (Coupon)	Bid Price	Bid Yield	Ask Yield	Mid-Yield	w/w Δ
07-Apr-25 (0)	56.4	24.03%	20.50%	22.27%	-0.07%
16-Feb-26 (8.13%)	69.3	26.44%	24.19%	25.32%	0.99%
11-Feb-27 (6.38%)	53	28.94%	27.50%	28.22%	1.18%
26-Mar-27 (7.88%)	54.8	28.55%	27.21%	27.88%	0.42%
07-Apr-29 (7.75%)	49	25.26%	24.18%	24.72%	1.18%
16-May-29 (7.63%)	48.8	24.93%	23.86%	24.40%	1.11%
14-Oct-30 (10.75%)	83.3	14.60%	14.08%	14.34%	0.56%
26-Mar-32 (8.13%)	48	21.69%	20.83%	21.26%	1.34%
07-Apr-34 (8.63%)	46.5	21.70%	20.85%	21.28%	0.93%
11-Feb-35 (7.88%)	46	20.09%	19.30%	19.70%	0.75%
07-May-42 (8.88%)	46.5	19.76%	18.98%	19.37%	0.97%
16-Jun-49 (8.63%)	46	18.95%	18.18%	18.57%	0.81%
26-Mar-51 (8.95%)	46.3	20.5%	19.6%	20.1%	1.03%
11-Mar-61 (8.75%)	46	20.12%	19.24%	19.68%	1.04%

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